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OFFICE OF REPORTS AND ESTIMATES

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SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The Danish commitment to build tankers for the USSR under the terms of a 1948 trade agreement may be avoided as a result of Soviet refusal to permit inspection of the steel for the program. (Item No. 1, A)

No weakening of its port closure policy should be inferred from the Nationalist decision to allow the US cargo ship SIR JOHN FRANKLIN to depart from Shanghai. The Chinese Minister of Foreign Affairs has informed the US Charge d'Affaires at Hong Kong that special permission was given only at the request of the US Government and should not be considered as establishing a precedent. (Item No. 2, B)

Recent efforts of the Chinese Communists to acquire rails abroad indicate that they wish to commence the rehabilitation of their railway system immediately, regardless of the drain on their limited foreign exchange resources. (Item No. 3, B)

A new railroad link connecting the province of Assam with the port of Calcutta by a route entirely within Indian territory has been completed some three months ahead of schedule. This development has resulted from the partitioning of Bengal which placed a large portion of the former Bengal Assam railway in East Pakistan. (Item No. 4, C)

Restitution of foreign rolling stock still held in Western Germany may soon be carried out. Recent consideration of the problem by British, French and US occupational authorities has revealed general agreement that the improved operational efficiency of the German railway system, as evidenced by the recent handling of the harvest traffic and general reduction of the turn-around time for freight cars, now make restitution possible without endangering the German economy. (Item No. 5, B)

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The Assistant Military Attache of the Soviet Embassy in Ottawa is apparently showing an active interest in current transportation developments in Canada's western provinces. (Item No. 6, C)

Present indications are that Western Germany may be included in the International Customs Convention on Touring Commercial Road Vehicles and International Transport of Goods by Road, signed in Geneva on 16 June 1949 by various European ECE representatives and now awaiting ratification by their respective governments. (Item No. 7, B)

In the event that Czechoslovakia acquires four-engine air transports, their operation on scheduled services to the Near East can be prohibited only if a common policy is maintained by the Mediterranean countries over which such flights would take place. Defection by any one of these countries would provide an opening of which Czechoslovakia would quickly take advantage. (Item No. 8, A)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The Danish commitment to build tankers for the USSR under the terms of a 1948 trade agreement may be avoided as a result of Soviet refusal to permit inspection of the steel for the program. The agreement called for the USSR to supply ship plates for three tankers, among other vessels. The Soviet Union, however, has refused to allow entry to a Danish shipbuilder, who contracted to build one of these tankers and five other vessels, and wished to inspect the steel prior to its delivery to the shipyards in Denmark. (This may have been an attempt to force the Danes to supply steel, now in tight supply in the USSR.) Following this refusal, the shipbuilder undertook to supply the required steel from other sources.

The Department of State has instructed US Embassy, Copenhagen, to solicit Denmark's agreement to refrain from building tankers, which the US has classified 1-A on its list of prescribed export items for either Soviet or Satellite purchasers. With respect to the USSR, the inspection difficulties provide a possible basis for Danish action to nullify its tanker commitment. The Department has suggested that the US would have little objection to a compensatory increase in dry cargo ship construction for the USSR, although other compensating exports would be even more preferable. A Danish commitment to the US along the foregoing lines may also balk Poland's present efforts during trade talks with Denmark to contract for the construction of four large, ocean-going tankers. This would be particularly advantageous, in view of the danger that Poland might transfer such vessels to the USSR. This possibility is suggested by the recent sale of Polish passenger vessels to the USSR (see D/Tr Weekly No. 89).

Although a substantial cargo ship program would obviously increase the ocean-going transport potential of the USSR, such tonnage would be of much less value to the Soviet Union than would even a few fast modern tankers. The USSR's repeated efforts to acquire tankers from other European shipyards suggest that tanker tonnage constitutes the major shortage in the Soviet ocean-going fleet. (At present the USSR's ocean-going tanker tonnage ranks fourteenth in world tanker fleets, totaling only 127,000 gross tons as of 30 June 1949.) Moreover, the recent Soviet chartering of US and other foreign-flag tankers to supply its petroleum needs in the Far East indicates current inability to meet its petroleum transport needs (see D/Tr Weekly No. 91). If the USSR were to acquire four vessels equivalent to the US T-2, the tanker fleet would be increased by only 40,000 gross tons, but the Trans-Siberian railroad would be relieved of some of the strain under which it now operates. (Secret)

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2. No weakening of its port closure policy should be inferred from the Nationalist decision to allow the US cargo ship SIR JOHN FRANKLIN to depart from Shanghai. The Chinese Minister of Foreign Affairs has informed the US Charge d'Affaires at Hong Kong that special permission was given only at the request of the US Government and should not be considered as establishing a precedent. The Minister, furthermore, requests the Embassy to take steps to warn the vessel's operator, Isbrandtsen, against repetition of past attempts to violate the closure order by sending ships into Shanghai.

Meanwhile, both the Far Eastern representative of Isbrandtsen and the line's Shanghai agent now believe that it would be unwise to attempt further entries into Shanghai under present conditions. The basis for their attitude is not known, but it is unusual in that it apparently conflicts with that of the US home office. In all probability the representatives realize that, despite US protests, the Nationalists may stand firm on their closure policy in the future, and that movements into Shanghai will become increasingly dangerous. (Confidential)

3. Recent efforts of the Chinese Communists to acquire rails abroad indicate that they wish to commence the rehabilitation of their railway system immediately, regardless of the drain on their limited foreign exchange resources.

An attempt to resolve the railway problem with domestic resources has resulted in the restoration of most lines, although many of these are capable of handling only light traffic. In this restoration, the Communists have been forced to utilize rails taken from sidings and yards, from the second track of double tracked lines, and from an abandoned Japanese military railroad between Peian and Heiho in north Manchuria. Although an order was placed with the Northwest Iron and Steel Company at Taiyuan for "large quantities" of rails and other track materials, the capabilities of this plant are relatively limited. The steel plants in Manchuria, moreover, have been dismantled.

It is not positively confirmed that the Communist-controlled railroads of China have received any rail material from abroad. Reports to the effect that about 300 miles of rail have been delivered from the USSR to Manchuria may refer to nothing more than the reallocation to these lines of rails which were removed from them after the Japanese collapse. In any case, the Chinese Communists are known to have negotiated for large quantities of rails from both Germany and Japan. Two West German companies have been approached by a London firm to supply 75,000 tons of 85-pound rails for the Chinese Communists. The orders have been held up, however, at the request of the US State Department. A Tokyo metal firm has also been asked to supply 65,000 tons of rails and 10,000 tons of rail laying materials to the same customer. This order, however, has likewise encountered delays in obtaining SCAP approval. (Confidential)

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4. A new railroad link connecting the province of Assam with the port of Calcutta by a route entirely within Indian territory has been completed some three months ahead of schedule. The new line is about 145 miles long and connects Fakiragram on the existing Assam railway line with the Alipore depot, south of Calcutta. The new track runs through West Bengal, Bihar and Cooch Behar in order to avoid entering East Pakistan territory. This development has resulted from the partitioning of Bengal which placed a large portion of the former Bengal Assam railway in East Pakistan.

Since partition in August 1947, it has been necessary to move goods and passengers from India's frontier province of Assam to the rest of Indian territory by means of the East Bengal Railway of Pakistan. This railroad has been the principal route for delivering cargoes of jute and tea from Assam to Calcutta and from there to the markets of the world. The existence of so large a portion of the railroad's track within Pakistan has given Pakistan authorities a degree of control over the movement of tea shipments considered undesirable by the Indian tea industry.

The desirability and necessity of constructing an all-Indian rail route was immediately apparent to the Government of India and its Railway Board, which late in 1947 authorized the construction of the Assam Rail Link Project. According to press dispatches, goods traffic was to commence over the entire distance of the new line on 9 December with formal opening of the line for both passenger and goods traffic to take place on 26 January 1950, when the country celebrates the inauguration of the Indian Republic. (Restricted)

5. Restitution of foreign rolling stock still held in Western Germany may soon be carried out. Recent consideration of the problem by British, French and US occupational authorities has revealed general agreement that the improved operational efficiency of the German railway system, as evidenced by the recent handling of the harvest traffic and general reduction of the turn-around time for freight cars, now make restitution possible without endangering the German economy.

Subject to explicit reservations in favor of foreign countries which may be entitled to reparation or compensation through a future German peace treaty, the occupational authorities are studying the feasibility of negotiating and implementing jointly such agreements between Western Germany and other countries whose rolling stock is still in Western Germany, or countries which are holding Reichsbahn equipment. The occupational authorities will probably insist that agreements making final

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disposition without compensation, must dispose of all of the rolling stock in Western Germany belonging to any given country in such a way that there will be no unliquidated claims of this type against Germany.

The agreements would probably carry varying conditions with respect to the different categories of equipment. Freight cars owned by railways, whether serviceable or unserviceable, and passenger equipment, luggage vans and locomotives in serviceable condition will probably be exchanged on a one-for-one, all-for-all, or equal value from each side. Unserviceable rolling stock in the latter three categories and privately-owned rolling stock and equipment not otherwise covered will probably be returned without compensation.

ally proceed along these lines should result in substantial reduction and possible total elimination of foreign rolling stock still held in Germany during 1950. (Confidential)

6. The Assistant Military Attache of the Soviet Embassy in Ottawa is apparently showing an active interest in current transportation developments in Canada's western provinces. These projects are designed to provide rail connections and improve highway links between the US and Alaska (see D/Tr Weekly No. 89). According to the publisher of the "Alaska Highway News" at Fort St. John, the Soviet Attache not only is a subscriber to this weekly newspaper, but is gathering newspapers from other northern points in the Highway area. (Restricted)

7. Present indications are that Western Germany may be included in the International Customs Convention on Touring, Commercial Road Vehicles and International Transport of Goods by Road, signed in Geneva on 16 June 1949, by various European ECE representatives and now awaiting ratification by their respective governments.

The US delegation in Geneva, although not representing a contracting government, favors the inclusion of Western Germany and indicates that the German Government, having instituted changes in official regulations in order to conform to the convention's provisions, also desires to become a party to the agreement.

Article VI of the Convention provides for signature or accession only by those governments "invited to take part in preparation of draft conventions" and thus excludes Western Germany. However, Article II 2,

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providing specifically for occupied areas, states that a "contracting government may at any time, by notification to UN SYG, declare that the present agreement shall extend to any of the other territories for which it has international responsibility."

The ECE Secretariat has stated that, so far as the UN is concerned, inclusion of Western Germany can be accomplished legally by notification to the UN by the French or British Governments that the agreement extends to Western Germany. The British are now considering consultation with the Allied Commission, Germany, with a view to reporting to the UN an agreement among the three occupying powers to this effect.

CIVIL AVIATION

8. In the event that Czechoslovakia acquires four-engine air transports, their operation on scheduled services to the Near East can be prohibited only if a common policy is maintained by the Mediterranean countries over which such flights would take place. Defection by any one of these countries would provide an opening of which Czechoslovakia would quickly take advantage.

Numerous reports emanating from the Greek Embassy at Prague have concerned the efforts of Czechoslovak Airlines (CSA) to obtain modern US air transports. These reports have been accepted with some reserve by US officials, because it was felt that they have been partly inspired by the Charge's desire to promote a change in Greek aviation policy toward Czechoslovakia.

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now seems to bear out these warnings that agents in Switzerland are prepared to sell the Czechoslovaks long-range air equipment. In conversation with General Stanovsky, Chief of the Czechoslovak Ministry of Transport's Aviation Division, [redacted] learned that the General "confidently" expects to purchase four US four-engine transports in Switzerland.

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Concern of the Greek Charge at Prague over his country's position vis-a-vis Czechoslovakia, as a result of Greek denial of landing rights at Athens for Czechoslovak Airlines (CSA), has caused him to report all rumors affecting developments which might permit modification of Greek obligations to deny repeated Czechoslovak overtures on this score. Believing that his government has borne the principal burden of implementing US-UN Satellite aviation policy in the Mediterranean to the detriment of its trade relations with Czechoslovakia, the Charge apparently is attempting to show that this prime responsibility should now be shifted to Italy because, with new long-range aircraft, CSA could by-pass Athens from Rome en route to the East.

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The ability of CSA to fly non-stop from Rome to Lydda would not of itself insure the granting by Italy of the necessary transit rights to the Near East. CSA, in fact, has been denied the right to transit Italy on the ground that the airline has no specified terminal point beyond Italy to justify such operations. (A refusal of transit rights over Turkey by CSA was based on similar grounds.) Even if CSA could obtain these terminal rights for scheduled services, Italy, although a member with Czechoslovakia of the International Civil Aviation Organization and thus bound by the articles of the Chicago Convention, has not adhered to the International Air Transit Agreement as have Czechoslovakia and Greece, and therefore is not obligated to grant overflight privileges to foreign airlines.

During recent personal visits to Greece, Israel and Italy, General Stanovsky attempted in each country to break down resistance to CSA's Mediterranean operations, but without success. Although Israel has not been asked to collaborate in implementing the US-UK Satellite aviation policy, it has in effect done so by indicating that it is not ready to discuss civil air matters with Czechoslovakia until after an Israeli-US air agreement has been concluded, negotiations for which have not yet commenced.

CSA has one remaining avenue of approach to the Eastern Mediterranean through Belgrade. The present political tension between Czechoslovakia and Yugoslavia, however, would appear to preclude any arrangement of this nature.

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